# QUARTERLY INVESTOR COMMENTARY
# 30 SEPTEMBER 2022

## CONTRARIUS GLOBAL EQUITY FUND

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*The Fund aims to earn a higher Total Rate of Return than the average of the world's equity markets, as represented by the MSCI World Index, including the reinvestment of dividends net of withholding tax ("MSCI World Index", "Benchmark"). It aims to achieve this without greater risk of loss, over the long-term. The Fund is an actively managed fund, and as such does not in any way seek to replicate its benchmark index, but may instead differ materially from the performance benchmark in order to achieve its objective.*

**CONTRARIUS GLOBAL EQUITY FUND AT 30 SEPTEMBER 2022**

| Total Rate of Return in US Dollars | Class | Since Inception on 1 Jan 2009 | Latest 10 Years | Latest 5 Years | Latest 3 Years | Latest 1 Year | 2022 Year-to-date | Latest Quarter |
|---|---|---|---|---|---|---|---|---|
| | | *% Annualised* | | | | *% Not Annualised* | | |
| **Contrarius Global Equity** | **Investor** | **12.8** | **8.2** | **3.0** | **12.4** | **(7.5)** | **(6.5)** | **(1.6)** |
| MSCI World Index | | 9.3 | 8.1 | 5.3 | 4.6 | (19.6) | (25.4) | (6.2) |
| Average Global Equity Fund | | 6.8 | 5.4 | 2.1 | 1.7 | (23.0) | (27.2) | (7.3) |

**Past performance is not a reliable indicator of future results. The Fund's share prices fluctuate and are not guaranteed. Returns may decrease and increase as a result of currency fluctuations. When making an investment in the Fund, an investor's capital is at risk.**

*Figures for other Classes of Shares and subsequent Series of Shares are available on our website.*

The Fund's Investor Class shares returned (1.6)% for the quarter versus (6.2)% for the benchmark MSCI World Index, including reinvested net income. As we have highlighted previously, our investment philosophy is not benchmark cognisant and our portfolios would normally vary materially from the benchmark World Index. The Fund's returns are therefore likely to deviate from those of the benchmark. Investors are reminded that given the long-term, contrarian, valuation-based investment philosophy, there will be times when the Fund will materially underperform its benchmark in the short-term in order to achieve its objective of long-term outperformance.

The Fund is overweight selected Energy, Communication Services, and Consumer Discretionary stocks. In terms of geographic exposure, the Fund is overweight shares in North America and Europe.

| Sector Exposure 30 September 2022 | Weighting (%) Fund | MSCI World Index [1] | Over/(Under) Weight |
|---|---|---|---|
| Communication Services | 18 | 7 | 11 |
| Consumer Discretionary | 21 | 11 | 10 |
| Consumer Staples | 1 | 8 | (6) |
| Energy | 41 | 5 | 36 |
| Financials | 3 | 14 | (11) |
| Health Care | 3 | 14 | (11) |
| Industrials | 5 | 10 | (5) |
| Information Technology | 1 | 21 | (20) |
| Materials | 6 | 4 | 1 |
| Real Estate | 0 | 3 | (3) |
| Utilities | 0 | 3 | (3) |
| **Total Shares** | **99** | **100** | |
| Net Current Assets | 1 | - | |
| **Net Assets** | **100** | **100** | |

[1] *Source: MSCI (attention is drawn to MSCI disclaimer in 'Notices')*

| Geographic Exposure 30 September 2022 | Weighting (%) Fund | MSCI World Index [1] | Over/(Under) Weight |
|---|---|---|---|
| North America | 78 | 73 | 5 |
| Europe | 19 | 17 | 2 |
| Japan | 0 | 6 | (6) |
| Asia ex-Japan | 0 | 1 | (1) |
| Other | 1 | 2 | (1) |
| **Total Shares** | **99** | **100** | |
| Net Current Assets | 1 | - | |
| **Net Assets** | **100** | **100** | |

[1] *Source: MSCI (attention is drawn to MSCI disclaimer in 'Notices')*

The Fund's Investor Class shares returned (1.6)% for the quarter versus (6.2)% for the benchmark MSCI World Index, including reinvested net income. The outperformance for the quarter was relatively broad based. The largest positive contributors for the quarter were Uber Technologies, Valaris, DraftKings, EQT and Coinbase Global.

Year to date, the Fund's Investor Class shares returned (6.5)% versus (25.4)% for the benchmark and (27.2)% for the average global equity fund. The largest positive contributors year to date were Valaris, Alpha Metallurgical Resources, Teck Resources, Ovintiv and Arch Resources.

## Offshore Oil Drillers

We have previously discussed our overweight position to selected Energy shares. While the Fund's overall exposure to Energy has remained largely unchanged in recent quarters, the component related to offshore oil and gas drillers has gradually increased. At quarter end Valaris, Noble, Transocean and Diamond Offshore accounted for almost half of the Fund's Energy exposure.

Our previous experience of investing in the drillers was painful. Given this, many may ask why we have reinvested?

### Pre Covid-19 Investment Case

To address this, we must revisit the initial investment case.

In the mid 2000's, worries over peak oil supply led to a rise in oil prices and investment in future production. The offshore industry responded with a flurry of offshore rig newbuild orders. At the time, Transocean was forecasting future floater demand to reach 500 rigs. For reference current demand is closer to 150, with demand peaking at 280 in 2014. Despite being largely uneconomical at then prevailing prices, US shale oil and gas output grew rapidly. This resulted in a weakening demand for offshore rigs. But newbuild delivery lead times are long. So, despite weak demand, rigs continued to be delivered—even to this day. In certain sub-sectors, supply exceeded demand by over 40%. Day rates collapsed, resulting in falling revenue, falling free cash flow (FCF) and falling share prices.

By 2017, the availability of rigs versus demand (rig utilisation) had bottomed. Companies were consolidating, cold stacking rigs and scrapping older rigs. On the rig demand side, we believed a lack of long-term investment in hydrocarbon projects was potentially setting up a future energy crisis. Importantly, a return in demand was not crucial to the investment case—the industry could scrap or cold stack nearly 50% of their fleet and still offer attractive returns. Some companies were still generating FCF from historic long-term contracts. Most had plenty of cash on their balance sheets, albeit that they had longer term debt. In mid-2016 we began taking initial positions in selected drillers.

We considered normalised day rates to be between $350k to $450k for a drillship. At those rates, drillers can be extremely cash generative. In such an environment, the companies had reasonable leverage ratios and would have been able to quickly pay off debt.

We expected day rates to begin rising, as rig utilisation rose above 80%. By early 2019, despite weak demand, a number of offshore rig categories began passing 80% marketed utilisation and day rates were slowly rising. Should utilisation pass 90%, we expected day rate rises to pick up pace. By late 2019 this was beginning to materialise.

With debt maturities extended, cash on balance sheets, unsustainably low hydrocarbon reinvestment rates, coupled with already high rig utilisation and increasing day rates, we found the drillers very attractive with the shares trading at multi year lows.

And then Covid-19 struck.

### Covid-19's impact on the industry

Covid-19's impact on oil demand was unprecedented as the world largely shut down. Oil prices turned negative. Without foresight into the length and outcome of the pandemic, producers began pulling back on investment. Contracts were terminated, day rates stagnated and stakeholders began to worry about the length and extent of Covid's impacts.

In April 2020, one of the Fund's holdings, Diamond Offshore, filed for Chapter 11 bankruptcy protection. In late April we took the difficult decision to sell out of our remaining investments in the drillers. We believed that at the depths of the pandemic there were other extremely attractive investment opportunities with lower risk given the Covid-19 induced oil demand shock and the debt levels of the drillers. Some of these other investments (such as Signet Jewelers and The Michaels Companies) subsequently became amongst the largest positive contributors to the Fund's since inception outperformance. Meanwhile, with debt on their balance sheets and given the Covid-19 demand uncertainties, more of the drillers filed for Chapter 11, restructuring debt for equity (including Valaris and Noble).

**Covid-19's impact on our oil underinvestment thesis**

From the depths of the pandemic oil demand has meaningfully recovered. However, in Asia, home to 60% of the global population, travel restrictions remain widely in place, or are only beginning to be lifted. China is still experiencing widespread intermittent lockdowns. In addition, the current global energy crisis is impacting oil demand through lower economic growth, particularly across emerging market countries. There is therefore still significant scope for a further recovery in oil demand. Indeed, oil and gas demand is expected to continue to rise well into the 2030s.

Meanwhile, production in key producing regions has stalled. Shale growth in 2022 was expected to reach 1 mmbls/d. Half of that appears more likely. There are reports of operators moving to tier 2 locations. OPEC countries are also struggling, consistently failing to reach their agreed quotas. Oil spare capacity is already near 14-year lows. In addition, conflicts are causing short-, medium- and long-term supply worries. We believe, in key producing regions, it may become increasingly difficult to keep oil wells' natural production declines at bay.

Considering the underinvestment in long term projects from 2014 to 2021, and the outlook for increased oil and gas demand, we expect a significant increase in capex requirements over the rest of the decade. Offshore seems well placed to service these requirements. Offshore projects have lower all-in-costs than the majority of other greenfield projects including shale, with 80% of offshore projects' breakeven at $40 per barrel. There are also geographic and political advantages, including avoiding earthquake risks from fracking and conflict risks. Greenhouse gas emissions intensity can be reduced, and there is the possibility of carbon capture and storage.

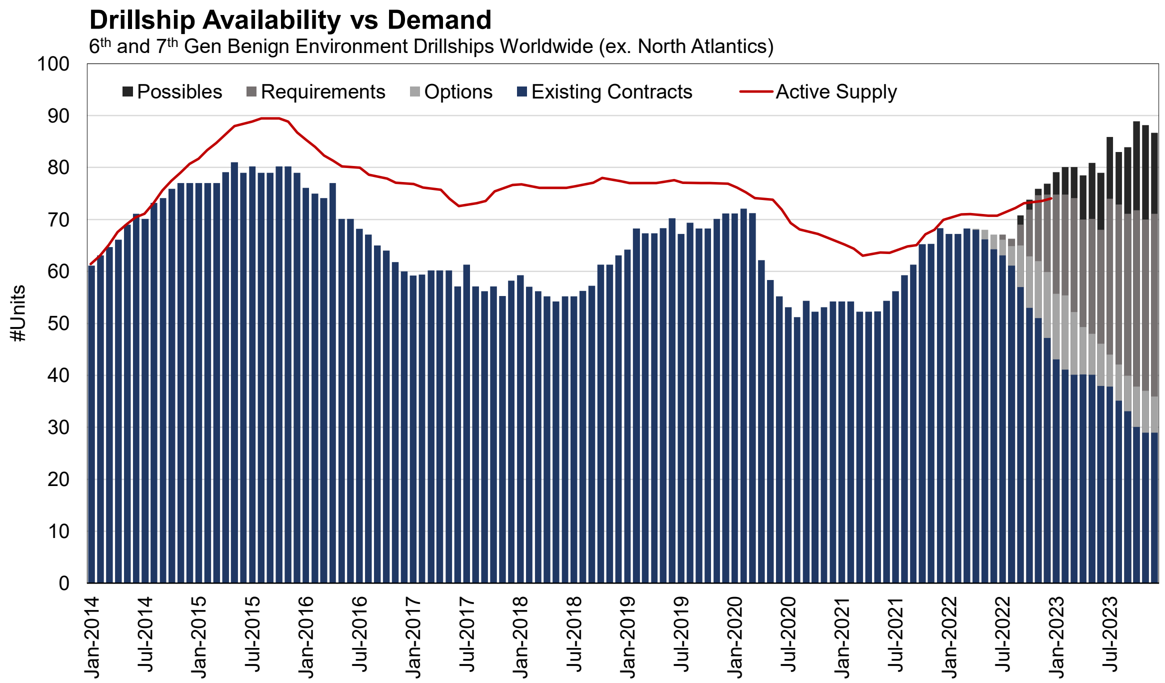
We believe the factors behind our original thesis are even more relevant today.

**Post Covid-19 Offshore Rig Environment**

There have been significant reductions in rig supply and various company consolidations over the last several years. The Fund's largest holding among the offshore drillers, Valaris, is the result of the combination of Ensco, Rowan, and Atwood Oceanics. Noble consists of Noble and Pacific Drilling and has recently completed its merger with The Drilling Company of 1972. Transocean consists of Transocean, Songa Offshore and Ocean Rig. This consolidation has left only about five major listed drillers. In some regions, producers have only a couple of companies to choose from. An important consideration when contracts are awarded by tender.

By August 2021, drillship utilisation had recovered to 2019 levels, reaching 82% marketed utilisation with day rates approaching $230k per day.

Over the past year demand for rigs has further increased, particularly from independent and national oil companies. Marketed utilisation rates approached 95% in August 2022 (in some regions 100%).




Source: Transocean, Fearnley's, Contrarius Research

As marketed utilisation exceeded 90%, day rates have rapidly risen with leading-edge day rates doubling in 12 months to over $400k per day. These levels have not been seen since 2014.

Given contracted backlog, these spot day rates may take time to feed through to companies' bottom lines. Nevertheless, it's clear the financial prospects for the drillers have dramatically improved.

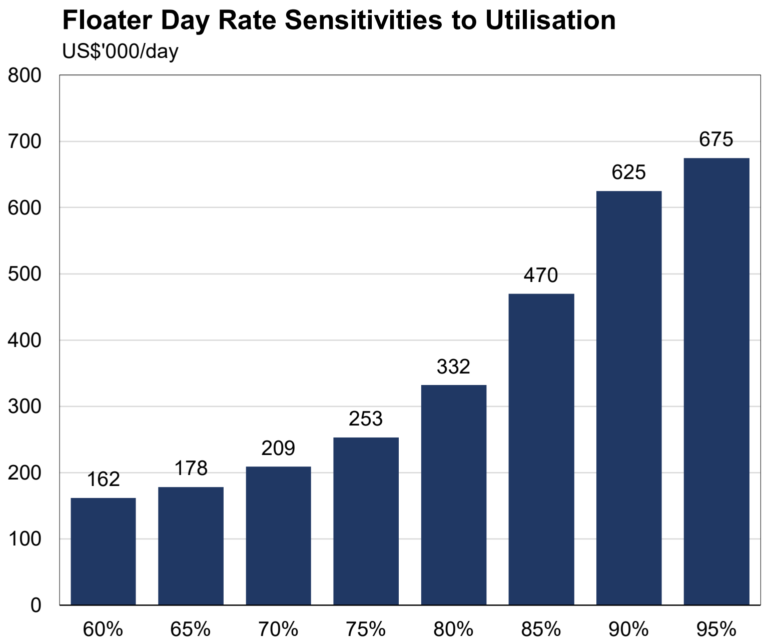
**Company Specific Analysis**

As with any investment, there are risks. However Noble, Diamond Offshore and Valaris have extinguished over $11 billion of debt in aggregate through the bankruptcy process by converting debt to equity resulting in strong balance sheets for these drillers. Covid-19 caused the greatest oil demand destruction and uncertainty in history. We think the likelihood of a similar set of events is low, but not impossible. Should similar, or even a worse set of events occur, we believe the restructured drillers—Noble, Valaris and Diamond Offshore—should carry a low risk of permanent loss.

For many rig categories, the market is already tight. But demand appears set to rise further. For instance, between 2014 and 2020, capital committed for offshore greenfield projects averaged about $60 billion per annum. For 2023 and 2024, it is estimated for this to more than double. This is despite continued low investment by the majors. Should the majors reverse their stance, offshore rig demand may be even higher than currently forecast. It wouldn't be the first time that highly cyclical industries, following a prolonged downturn, underestimate future demand.

Should demand continue to grow, the industry does have some spare capacity through cold stacked rigs—but not much. This provides the companies we hold with attractive operating leverage. Given the current economics of reactivations (including customer contributions), payback periods are estimated to be less than a year for assets with significant useful lives remaining. Selective asset sales have also highlighted the potential value of these stacked assets (which in some cases are estimated to be a meaningful portion of the companies' current market value).

We could also quickly be back to mid-2000 level utilisation and it's plausible that the industry may need to reinvest in newbuilds. Saudi Arabia, in combination with Valaris, is already planning to build new jack-up rigs. For the Fund's holdings we expect the hurdle rate for new investment by management to be high. After a prolonged and painful downcycle we believe that company management are unlikely to quickly leverage up with expensive newbuilds, particularly given ESG worries and doubts over long term oil and gas requirements. This psychology is already playing out in the US onshore shale patch, with the industry showing remarkable capital restraint. In such an environment, producers may find it difficult to source offshore rigs. This may lead to day rates exceeding prior peaks—and with long contract durations. With high operating leverage much of this should flow to the bottom line. Current spot day rates for deepwater drillships are approximately $400 k/day. At these spot rates (once contracts reprice), we believe that the shares are trading on low single digit multiples of free cash flow. It would not surprise us if day rates ultimately go substantially higher.




Source: Transocean, Clarkson Platou Securities AS, Contrarius Research

**Summary**

The capital-intensive nature of the offshore rig industry results in a high level of cyclicality. These cycles tend to be long—both up and down. We believe the circumstances discussed above led to an extended down cycle. It appears that the cycle has decisively turned with certain rig categories already well into the 90% marketed utilisation range. Average deepwater drillship day rates have more than doubled since the back half of 2020. With a few exceptions, the drillers have low net debt levels, low maintenance capex requirements and a minimal desire for investment in newbuilds. We believe that the meaningful free cash flow that these companies should generate at current spot day rates should largely flow to shareholders. Valaris has already authorised a $100 million share repurchase program. We are extremely enthusiastic about the opportunity these holdings present for the Fund.

## CONCLUSION

The Fund is overweight selected Energy, Communication Services and Consumer Discretionary stocks. It should be noted that our portfolio composition is extremely different to the current composition of the MSCI World Index. The level of valuation disparity within the market and immense value we see within the current portfolio continues to make us very enthusiastic about the future.

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Contrarius Global Equity Fund (the "Fund") is designed for investors who have made the decision to invest a predetermined amount in global equities. It aims to achieve higher returns than the average of the world's equity markets, without greater risk of loss, over the long term. The Fund aims for higher returns than a designated equity performance benchmark namely the MSCI World Index, including reinvested net income (the "Benchmark", Bloomberg ticker code: NDDUWI Index). The Fund aims to be substantially invested in selected global equities and equity-related securities at all times and thus be exposed to all the risks and rewards of the global equities selected for the Fund. Theses equities are selected using proprietary investment research conducted with a long-term perspective. The Fund does not seek to replicate the benchmark. The Fund is actively managed and its stock holdings may differ materially from the benchmark in order to achieve its objective. The bottom-up research approach means that there are no sector, geographic or other market investment targets. Given the long-term, contrarian, valuation-based investment philosophy, there will be times when the Fund will materially underperform in the short-term in order to achieve its objective of long-term outperformance. Since 30 June 2016, the Fund has been priced daily. From inception up to 30 June 2016, the Fund was priced weekly. Performance prior to 30 June 2016 was while the Fund was a Jersey domiciled fund.

With effect from 1 July 2020, a separate Series is issued on each Dealing Day for subscriptions. Any shares issued prior to 1 July 2020 will be part of the Initial Series. Figures on this Report relate to the Initial Series of each Fee Class.

**Risk Warnings**. Collective Investment Schemes (CIS) are generally medium- to long-term investments. The value of an investment in the Fund may go down as well as up, and past performance is not a reliable indicator of future results. The Investment Manager provides no guarantee with respect to capital or the Fund's returns. The Fund is a USD Fund. Currency exposure can significantly influence returns. CIS are traded at ruling prices. Contrarius ICAV may only engage in limited borrowing to fund redemptions and cannot engage in scrip lending. A performance fee is charged to performance fee paying fee classes of the Fund. The Performance Fee is calculated and accrues daily and crystallises at the end of the Performance Period (being 30 June each year), or on redemption. The Performance Fee is 20% of the extent to which a Series outperforms its Benchmark (after deduction of the Base Fee), but only once the Series reaches a new High Water Mark. This means that the Investment Manager will only receive Performance Fees in relation to any Series when the ratio of the Net Asset Value per Share of the Series to the benchmark MSCI World Index reaches a new high at the end of a Performance Period (or at the time of a redemption). A schedule of fees and charges and maximum commissions is available on request from the Investment Manager. Individual investors' performance may differ as a result of investment date, reinvestment date and dividend withholding tax, as well as a levy that may apply in the case of transactions representing more than 5% of the Fund's net asset value. The Fund may be closed to new investments at any time in order to be managed in accordance with its mandate. The Fund invests in foreign securities. Depending on their markets, trading in those securities may carry risks relating to, among others, macroeconomic and political circumstances, constraints on liquidity or the repatriation of funds, foreign exchange rate fluctuations, taxation and trade settlement. Please refer to the Fund's Prospectus and Supplemental Prospectus for further information on the risk and rewards of investing in the Fund.

| Performance (net, per calendar year, since inception) | Fee Class | Currency | Best Performance | | Worst Performance | | Inception Date |
|---|---|---|---|---|---|---|---|
| | | | Year | % | Year | % | |
| Contrarius Global Equity Fund | Investor Class | US$ | 2009 | 94.5 | 2018 | (19.4) | 01-Jan-09 |
| | Institutional Class | US$ | 2009 | 95.1 | 2018 | (19.1) | 01-Jan-09 |

Returns are calculated on a NAV to NAV basis, net of fees, and include income and assume reinvestment of dividends. The performance for each period shown reflects the return for investors who have been fully invested for that period. Returns, other than for periods less than one year, are annualised. Where returns are annualised, the average amount of money earned is expressed as a percentage each year over a given time period. Full performance calculations are available from the Investment Manager on request.

**Sources**. Fund performance data is based on Fund prices supplied by the Fund's Administrator. Fund holdings are supplied by the Fund's Administrator.

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 The Average Global Equity Fund is comprised of Global Large-Cap Blend Equity funds which invest principally in the equities of large-cap companies from around the globe as defined by Morningstar.

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